



Chief Executive's Office

Martin Rolfe

Chief Executive
NATS
Corporate & Technical Centre
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26 May 2017

Dear Martin

NERL's 2017 airspace and technology programmes

Following the submission of your 2017 airspace and technology programmes and our subsequent discussion, we have now considered whether the programmes address the issues set out in my letter of 26 January 2017 and meet the requirements of Condition 10 of the NERL licence.

In terms of the level of detail provided, the airspace and technology programmes represent a significant step forward compared to SIP17. NERL has responded to many of the issues raised and provided further detail and clarity over its programme. This view is aligned to the findings of the Independent Reviewer, Grant Bremer, who found the programme, *“considerably more robust and detailed than any previously provided. There is improved clarity on what the constituent programmes/projects are and how they link together. That being said there are some areas that warrant further consideration”*. We also consider that the format of the programmes has improved which increases the clarity and transparency of your plans.

Despite this positive forward step, Grant Bremer's report, our consultation with airlines, and our own analysis have confirmed that there are still areas in the programme which have insufficient detail or clarity.

In particular, we consider that to understand the future management of benefits of investment, further detail and effort is required by NERL. The current approach to benefits management is complex, and potentially lacks clear individual accountability, or correlation with the requirements under the performance scheme. There is insufficient detail provided of how benefits will be achieved and realised by airspace users.

A related concern is about the risks and dependencies assumed in the plan. There is insufficient detail provided about how the programme could be affected if risks were realised, and what the resulting impact on service received by users would be.

Both of these concerns could be addressed if NERL were to be more explicit about the overarching narrative for its capital investment programme. As noted in Grant Bremer's report, *“The “golden thread” that exists to link programmes/projects, benefits delivery and the relationship with KPAs would benefit from further clarity and development”*. We consider that to provide ongoing assurance to users, and to provide transparency of its activities, NERL should make an ongoing effort to provide a level of detail to users such that they are able to

clearly understand the benefits and service they should receive as a result of investment, and be able to understand the programme as a whole. NERL's efforts should include work to make project and programme nomenclature more stable and consistent to aid in the tracking of progress and benefit delivery.

At the Deep Dive on 1 March, NERL presented further information to explain the difference in costs contained in SIP16 and SIP17. While this detail improved user understanding of why costs increased, we were disappointed to note this information was not provided in the airspace and technology programmes. We also consider that while it is a step forward to explain the cost increases, users are still concerned that further cost increases could occur. Recognising the limited merit and benefit to users in continuing to debate recent costs changes – particularly as you suggested in our recent meeting that the underlying information does not exist and would need to be developed afresh - instead, NERL should focus on taking steps to provide users with more information and further assurance of cost forecasts on an ongoing basis.

Taking into consideration Grant Bremer's report, our consultation with airspace users, our own analysis, and recognising the desire to look ahead to the quality and integrity of the underlying information to support the delivery and implementation of your programmes, we conditionally approve 'the form, scope and level of detail' of the March 2017 airspace and technology programmes and therefore, as per my January letter, SIP17.

This approval is conditional upon NERL providing:

- further commentary and clarity on the linkage between programmes and the benefits that will be delivered, including specifically how the investment outlined will contribute towards improving NERL's performance for each of the Key Performance Indicators, at the project level where feasible. This might usefully be shown on a Benefits Map, but we will leave the format to you to decide.
- greater clarity on the major risks and dependencies within the programmes and any potential impacts on service provision should these risks materialise.

This information should be provided in the form of a letter accompanying the interim SIP by 30 June 2017. It is our expectation that future reporting against the airspace and technology programmes will include more information and further assurance of costs forecasts on an ongoing basis.

For the avoidance of doubt, having set this bar for 'level of detail', this will be the basis for reporting going forward as we assess delivery and progress against these programmes.

As highlighted in my previous letter, our approval of the form, scope and level of detail does not guarantee that the capex within the programmes will automatically be included within the NERL RAB for RP3. The converse is also true. We formally roll forward and reset the opening RAB at the start of each price control period, at which point we come to a view on whether the capital expenditure has been efficiently incurred. This will be informed by the views of external consultants, but we may also take account of the quality and outcomes of the SIP process and reports of the Independent Reviewer too.

Looking ahead, one significant point of concern that has been raised by users is the transparency of NERL's procurement processes and the assurance users can take that NERL is driving value for money into its programme. While we did not previously highlight this issue as part of our assessment of SIP17, and considerations of procurement largely fall outside the role of the Independent Reviewer, we do consider that these concerns have merit. We therefore request that NERL considers ways it could improve the assurance it offers users on its procurement practices, and engage on this with us and airspace users through the

remainder of RP2, mindful that we may consider the current procurement framework as part of our RP3 review.

Finally, we note that Grant Bremer's report also suggested that both CAA and NERL might jointly consider how the consultation process might be improved. As with the procurement point above, we also request you consider and then engage with us and your customers (both airspace users and airports) through the remainder of RP2 on options for improving the consultation process to everyone's mutual benefit.

Yours sincerely

A handwritten signature in black ink that reads "Andrew Haines". The signature is written in a cursive style with a large initial 'A'.

Andrew Haines
CHIEF EXECUTIVE